# TRANSPORTATION

## OVERVIEW

### *Governor's Transportation Financing Proposal Still Lacks Detail and Information*

As part of the 2002-2003 mid-year revision, the Governor proposed various fund shifts and transfers from transportation to the General Fund. In total, the Governor's re-financing proposal identified nearly $1.8 billion from transportation. However the majority of these savings were based primarily on budget-year actions, and not all savings were attributable to the General Fund. Key provisions of the proposal included the following:

- Suspend the $1.05 billion transfer of the sales tax on Gasoline from the General Fund to the Transportation Investment Fund (TIF) for the 2003-04 fiscal year. The result of this action will eliminate $678 million from the TCRF, $147 to the State Transportation Improvement Program (STIP), $147 million for local streets and roads, and $74 million to the Public Transportation Account.
- Cancel the $500 million General Fund loan repayment to the TCRF scheduled for the 2003-04 fiscal-year.
- Transfer $100 million from the TCRF balance to the General Fund.

Prior to the start of the 1st Extraordinary Session this year, Senate policy and fiscal staff prepared an analysis of the mid-year transportation proposals. Focusing on the TCRP items, staff identified numerous issues that needed to be resolved before the subcommittee could make an informed decision regarding these proposals. Specifically, staff identified issues with the overall lack of detail and intent regarding the future of the TCRP. As discussed in later in this analysis, the Administration indicated its desire to merge the TCRP with the STIP, thus eliminating the TCRP all together. Subsequently staff recommended that the Senate defer action on all budget-year items until the Administration provided a more detailed and thorough proposal.

The Governor's 2003-04 Budget, released on January 10, does not address the issues and concerns staff identified for the members. It is clear that no further information, nor detail will be provided for the TCRP/TIF proposals. The Administration states that their plan is to have the Transportation Commission (CTC) work with locals to identify and re-prioritize TCRP and STIP projects. The following analysis highlights the weaknesses of this approach.

<u>TCRP or STIP Projects will not Receive Funding</u>
A major component of the Governor's proposal is to shift administrative responsibility for the Traffic Congestion Relief Program (TCRP) from Caltrans to the Transportation Commission (CTC). Although the Administration has not provided trailer bill language that specifies how the CTC will administer the TCRP, the Administration proposes to shift the TCRP projects into the STIP. Based on the limited

information provided to the Legislature at the time this analysis was prepared, the Governor's proposal will result in a $1.5 billion reduction to the TCRP. (See Appendix A for background/history of the TCRP). Additionally, **the Administration has not identified a revenue stream to fund both STIP and TCRP projects** if this proposal is approved.

The TCRP authorized $4.9 billion for 159 specific projects over a 5–year period. If the TCRP projects are to be incorporated into the STIP, the Regional Transportation Planning Agencies (RTPAs) will have to prioritize TCRP projects in relation to their existing STIP projects. Given the status of the State Highway Account (discussed further in the next section), and the anticipated reduction of federal funds, the STIP cannot absorb the commitments made in the TCRP. A likely scenario will require the RTPAs to reconfigure their Regional Transportation Improvement Programs (RTIP; local portion of the STIP) and determine which projects to continue funding and which projects to defer or eliminate altogether.

Transportation Revenues are Down, and Expenditures Have Increased

State and federal revenues for the STIP are significantly lower than projected in the 2002 STIP fund estimate. According to new estimates released by Caltrans to the CTC, the STIP is projected to have a $4 billion cash shortfall over the next five years. The projected cash balance in the SHA for the current fiscal year is a $173 million shortfall. The SHA deficit increases to $634 million for the 2003-04 fiscal year.

The STIP revenue reduction can be attributed to the following factors:

- Projected $566 million federal Revenue Aligned Budget Authority (RABA) funding increase over the next five years will not occur.
- Anticipated 20 percent increase in federal funds for the 2003-04 fiscal year will not occur. Caltrans estimates a $600 million total reduction of Federal revenues.
- Loss of truck weight fees due to the implementation of SB 2084. The new truck weight fee system was intended to be revenue neutral. However, Caltrans projects an annual revenue reduction of $163 million beginning this fiscal year.
- Lower TIF transfer as a result of gasoline sales tax revenue decline. (Approximately $74 million lower in 2003-04).

Annual expenditures from the State Highway Account have increased significantly in response to efforts to speed the delivery of capital projects and reduce the traditionally high cash balances in the SHA. During the 2001-02 fiscal year, SHA expenditures exceeded account revenues by approximately $1 billion. Expenditures are projected to exceed revenues between $500 million and $1 billion annually over the next three years because of the continuing emphasis on accelerated project delivery.

Transportation Impacts

The Governor's budget revision has already had an effect on the TCRP and the STIP. The CTC on December 12, 2002 voted to suspend all new financial allocations for projects in the TCRP and the STIP at least until February 2003. Projects which earlier were given allocations and are in various stages of completion have been put in limbo.

*Short Term Effects:* The proposed loss of gasoline sales revenues and the related loan forgiveness to the TCRP has resulted in the CTC's December action to freeze project funding allocations for two months. This action has delayed 64 funding allocations. This, in turn is forcing local transportation agencies to ponder whether to sign pending contracts, order rail and other equipment or make other binding current year and future commitments. Agencies do not know whether or when funding might resume for projects in progress. Local agencies fear contractor lawsuits if funding is delayed or curtailed for projects under contract or those where preliminary work or resource marshaling has begun.

The Governor's transportation proposal is, in a technical sense, heavily-weighted toward the 2003-04 budget-year. However, the short-term effects are real and significant, as in the above-described project allocation freeze. The proposed funding suspension not only involves funds for the Traffic Congestion Relief Program, but the resulting allocations freeze is across the board and includes STIP projects, too.

*Longer Term Effects:* The loss of the sales tax revenues in the Budget Year will leave the TCRP approximately $1.5 billion short of the funds needed for the approved, and statutorily – endorsed, congestion relief projects. This is equivalent to approximately 25% of the funds promised for the program over its six years. The Governor's Proposal suggests that these underfunded projects should compete with other approved state and local transportation projects (in the STIP). Essentially, the situation would be one of too many projects chasing too few dollars.

The competition for remaining funding between TCRP and STIP projects would require the delay and/or abandonment of numerous transportation projects, especially in greater Los Angeles and the Bay Area, due to the concentration of TCRP projects in those two regions. The Department of Transportation and regional transportation agencies would have to reconstitute their respective transportation programs, either formally or informally. Project delays would increase the projects' ultimate costs while project abandonment would impede statewide mobility and increase congestion. The state would fall further behind in its attempts to maintain and expand the transportation infrastructure.

<u>Legislative Options</u>

These proposed reductions come at a time when transportation revenues are already below projections. As previously mentioned, the SHA has a projected cash shortfall of $173 million in the current fiscal year and a $634 million shortfall in the 2003-04 budget-year. The Legislature needs to address the financial status of the highway account even without funding issues posed by the Governor's refinancing proposal.

The Governor's budget revision proposals have thrown a cloak of uncertainty over both the Traffic Congestion Relief Program (TCRP) and the State Transportation Improvement Program (STIP). While the administration has suggested that it intends to fold the TCRP projects into the STIP, it has proposed neither a trailer bill to achieve that objective nor a revenue source to fund all of the projects demanding revenue.

For the Legislature to consider meaningful alternatives to the Governor's mid-year proposals, the Administration must articulate their intent with respect to the future of the Transportation Congestion Relief Plan (TCRP) and the fiscal instability and deficiencies of the current STIP.

The following are issues and options for the Legislature to consider.

*Is the administration's proposal to reduce funding to the TCRP a one-time action, or is the proposal part of a broader effort to repeal the TCRP entirely and require regional agencies to fund TCRP projects on their own and through the STIP process?*

***Staff Comment:*** If the proposal is a one-time reduction, the Legislature could simply modify the Governor's proposal by allowing the reduction now and requiring the General Fund to pay back the amount reduced at a future date (essentially extending the timeframe for the TCRP). If the proposal is to repeal the TCRP, see number 2 below.

*Given the current condition of the State Highway Account (SHA), the STIP cannot absorb the TCRP projects. Therefore, will the administration propose additional resources to fund those projects? If not, numerous TCRP projects will simply go without funding and will have to be delayed or cancelled.*

***Staff Comment:*** The Legislature approved the TCRP projects in statute. To the extent that Members want to see the projects continue, they may wish to consider additional sources of revenue to fund the projects (e.g., statewide gas tax, regional gas tax, allow local to raise their own transportation revenues with a majority vote, etc.).

*Will the administration propose to suspend the gasoline sales tax transfer from the General Fund to the Transportation Investment Fund over more than one fiscal year?*

***Staff Comment:*** If the administration proposes to suspend the gasoline sales tax transfer indefinitely as suggested, the condition of transportation funding will significantly diminish. While the General Fund would benefit from this action, over $1 billion in annual funding would be lost for TCRP and STIP projects, local street and road maintenance, and transit operating and capital investments.

A broader issue to consider is the transportation sector's partial reliance on gasoline sales tax revenues from the General Fund. Notwithstanding the constitutional dedication of these funds to transportation, General Fund appropriations for transportation will likely be targeted for reductions as this budget crisis continues and future crises emerge. Policymakers should consider whether the volatility and vulnerability associated with this financing structure—and the project casualties and delays caused by constant funding instability—is an acceptable situation. Members may wish to consider adopting more stable sources of transportation funding that would not rise or fall based on the General Fund's condition. Options could include looking at traditional transportation user fees or assisting local governments in raising their own transportation revenues.

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## 2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The state highway system comprises less than 9 percent of the total roadway mileage in California but handles approximately 54 percent of the miles traveled. The department also has responsibilities for congestion relief, transportation technology, environmental and worker protection, and airport safety, land use and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

The budget proposes total expenditures of $6.4 billion, a decrease of $673.5 million (9.5 percent) from the current-year budget. .

### *Issue*

### *Department Proposes to Eliminate Significant Number of Positions*

Caltrans proposes to eliminate a total of 1845.9 positions (1344.9 personnel years) in the 2003-2004 budget-year. Specifically the department proposes the following position reductions:

| | |
|---|---|
| • Expiring limited-term positions | -105.7 |
| • Expiring limited-term transportation permit positions | -15 |
| • Reduction in enhanced services to locals positions | -30.5 |
| • Elimination of Traffic Congestion Relief Program (TCRP) Positions | -1,223.7 |
| • Position reduction through attrition to generate State Highway Account savings | -471 |

The Governor states in the budget summary that the positions associated with the TCRP are being eliminated due to the uncertainty surrounding the program. The 1,223.7 TCRP positions were authorized when the TCRP was created in statute. Since the Administration's proposal is to re-prioritize TCRP projects with the STIP, Caltrans is anticipating a decrease in workload demand in the likely scenario that TCRP projects are not carried forward. Essentially the proposal to eliminate the TCRP positions presumes the decision to delete funding for the TCRP projects in the budget-year and possibly beyond.

The Administration has declared that is committed to restoring the level of positions needed to deliver high-priority TCRP projects if alternative financing is identified to continue funding the TCRP projects, or transportation agencies reprioritize projects within their regions to retain such projects.

The subcommittee will not have the official proposal until the department submits the Capital Outlay Support (COS) finance letter prior to the May revision. Caltrans has to establish its capital outlay workload demand for the upcoming budget-year in order to determine its staffing needs. This process has put the Legislature in a position of having to make difficult decisions regarding state staff and contracting out positions in a very limited time frame. The subcommittee on average has less than one week to approve, modify, or deny the Administration's COS budget proposal.

In light of the department's unofficial proposal to eliminate 1223.7 positions from the TCRP, and the likely reductions in the COS staffing budget, staff will recommend the subcommittee deny all position reduction proposals. By the time Caltrans' budget is heard on April 23, staff recommends the Subcommittee request that Caltrans and Finance provide the 2003-04 COS budget proposal, including all documentation used to establish the COS budget.

## 2665 High-Speed Rail Authority

The California High-Speed Rail Authority (HSRA) was created by Chapter 796, Statutes of 1996, to direct development and implementation of inter-city high-speed rail service that is fully coordinated with other public transportation services. The HSRA is required to prepare a plan for the financing, construction, and operation of a high-speed network for the state that would be capable of achieving speeds of at least 200 miles per hour. The HSRA has completed its business plan, initial finance plan, and currently is completing an initial program EIR and related technical studies.

### *Issues*

### *Uncertain Future of the HSRA*

The Administration proposes to consolidate the HSRA with Caltrans, beginning in the 2003-2004 budget-year. As stated in the Governor's budget summary, the Administration seeks to "bring the transportation expertise of Caltrans to the high-speed rail project." If approved, the HSRA board would continue to exist, but Caltrans staff would assume responsibility for support and administration of the program. This proposal could provide as much as $589,000 (thousand) in special fund(s) savings.

Caltrans rationale for eliminating the HSRA is that the department has both experience and knowledge with rail capital projects through the Mass Transportation program and the partnership with Amtrak. However, the decision to designate Caltrans as the lead agency for the high-speed rail project does raise questions, including whether the department has relevant expertise or experience with "high-speed" rail issues.

First, given the department's notorious track record with project delivery, is it wise to have Caltrans assume the lead on a project that is arguably the biggest public works project in California over the past 40 years?

Second, the timing of this proposal is questionable. Senate Bill 1856 (Costa, Chapter 697, Statutes of 2002) authorizes a $9.95 billion bond measure on the ballot in 2004 to help fund the planning and construction of the high-speed rail passenger system. How will the Administration's proposal affect the long-term viability of the program? Could eliminating the HSRA jeopardize the passage of the high-speed rail bond?

Given some of the policy concerns with the Administration's proposal, the fiscal and policy committees should try to resolve these issues before taking action on this item.

## 2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) regulates the issuance and retention of drivers' licenses and provides various revenue collection services. The DMV also issues licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale and disposal of vehicles.

The budget proposes total expenditures of $681.9 million, a decrease of $4.2 million (0.6 percent) from the current-year budget.

| Summary of Expenditures (dollars in thousands) | 2002-03 | 2003-04 | $ Change | % Change |
|---|---|---|---|---|
| General Fund | $1,598 | $1,114 | ($484) | -30.3 |
| State Highway Acct. | 41,005 | 59,727 | 18,722 | 45.7 |
| Motor Vehicle Acct. | 355,297 | 389,272 | 33,975 | 9.6 |
| New Motor Vehicle Board Acct. | 1,703 | 1,708 | 5 | 0.3 |
| Motor Vehicle License Fee Acct | 269,609 | 213,079 | (56,530) | -21.0 |
| Motor Carriers Permit Fund | 3,033 | 0 | (3,033) | -100.0 |
| Harbors and Watercraft Revolving Fund | 2,066 | 4,503 | 2,437 | 118.0 |
| Reimbursements | 11,859 | 12,524 | 665 | 5.6 |
| Total | $686,170 | $681,927 | ($4,243) | -0.6 |

## Highlights

### Additional Fees Proposed to Protect the Motor Vehicle Account

The MVA is the primary funding source for DMV and the California Highway Patrol (CHP). Over the past few years program expenditures from the MVA have increased significantly while revenues to the account have remained relatively stable. Additional pressures have been put on the MVA as a result of CHP's homeland security responsibilities. The budget assumes $74.5 million in federal funds to offset these costs, however the MVA remains the fund source until the federal funds are available. In light of these issues, the Administration is proposing additional fees to help stabilize the MVA. Specifically the new and adjusted fees include the following:

| | | Amounts | |
|---|---|---|---|
| **New MVA Fees for 2003-04** | **Projected Revenues ($ in thousands)** | **Old Fee Whole Dollars** | **New Fee Whole Dollars** |
| | | | |
| Increase ID fees from $6 to $20 for non-seniors; seniors free | 8,745 | $6 | $20 |
| Activate Business Partner Automation Program fee and increase from $2 to $3 | 1,950 | Authorized in current statute at $2.00 but fee has never been implemented. | $3 |
| Increase Non-Commercial Driver's License fees, from $15 for five years to $24 five years. | 30,100 | $15 | $24 |
| Increase Vehicle Registration base from $28 to $31 and increase the two CHP $1 surcharges to $2 each - a total VR increase of $7.00 | 94,850 | $28.00 base plus two $1 surcharges - totals $30 | $31.00 base plus two $3 surcharges - totals $37 |
| Standardize various transaction fees to $15.00 | 15,500 | Existing fees range from $2.00 to $15.00 | $15 each |
| New Public Safety Surcharge - to offset MVA expenditures | 30,940 | New surcharge, currently does not exist. | Up to 2% percent on intrastate telephone calls (0.25% for 2003-04). |

These fees are expected to generate approximately $194 million in revenues for the MVA, and provide a 3 percent reserve in the account.